Seattle City Light

Memorandum

DATE: March 26, 2012

TO: Mayor Michael McGinn
Seattle City Council

FROM: Jorge Carrasco

SUBJECT: Financial Update – February 2012

This memo provides an analysis of Seattle City Light's financial condition and operating results through February 29, 2012. The attached Income Statement Analysis, which is summarized in the chart below, provides a perspective on how City Light performed year-to-date in 2012 compared to the same period of the previous year. In addition, we have provided a revised projection of City Light's financial results through December 2012 compared to the 2012 Financial Plan. The 2012 Financial Plan is based on the revenues and expense projections included in the adopted budget for 2012.

FINANCIAL HIGHLIGHTS
February 2012
($ millions)

	Year-to-date Actual		Year End Dec. 31	
	2012	2011	Plan	Revised Forecast
Retail Power Revenues(1)	$ 125.8	$ 119.8	$ 677.5	$ 676.6
Net Wholesale Energy Sales (before booked-out LT purch)	$ 12.0	$ 24.4	$ 102.1	$ 40.0
Net Income	$ 32.5	$ 11.5	$ 105.6	$ 114.1
Cash Balances				
Operating Cash	$ 132.1	$ 40.4	$ 163.4	$ 174.2
Surety Bond Replacement Fund	$ 10.0	$ -	$ 20.0	$ 20.0
Construction Account - Restricted	$ 24.4	$ 246.4	$ -	$ -
Rate Stabilization Account	$ 134.5	$ 105.7	$ 113.8	$ 80.6
Bond Reserve(2)	$ 1.5	$ -	$ 3.7	$ 12.5
Debt Coverage Ratio	-	-	1.79	1.82
Debt to Capitalization Ratio	62.5%	66.7%	61.8%	62.0%

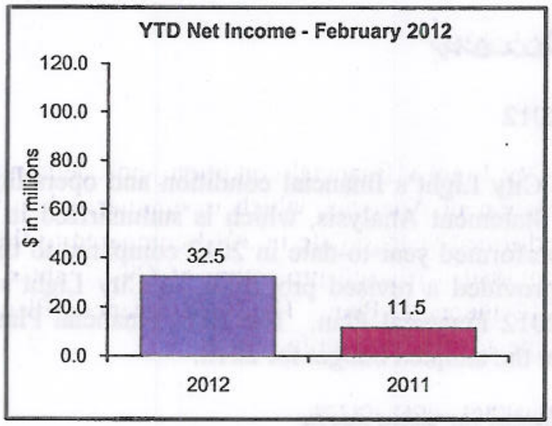
(1) Retail Power Revenues include revenues such as Green Power Program and Power Factor Charges and exclude low-income Rate Discounts.

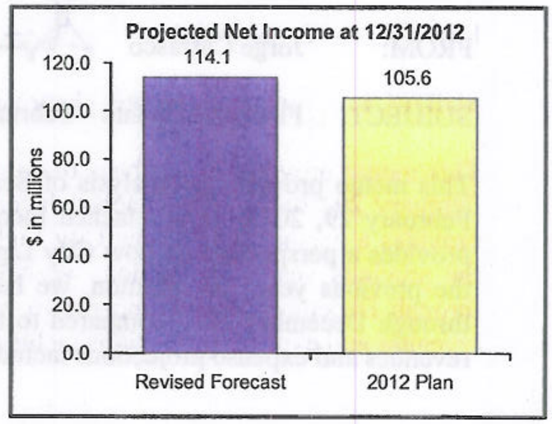
(2) The 2012 Financial Plan assumed that the annual requirements for the Bond Reserve Account would be funded over a five-year period. Since then the management decided to fund the Bond Reserve Account all at once.

Net Income

As indicated in the table on this page and in the charts on the next page, net income for the period ending February 29, 2012 was $32.5 million, which resulted in a $21.0 million or 182.6% increase over the same time period in 2011. This increase is explained by higher retail power revenues due to the across-the-board

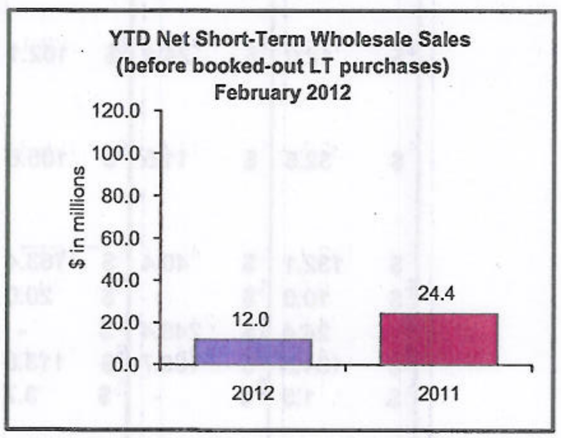
3.2% rate increase effective January 1, 2012 and a colder than normal January. Another contributor is the transfers to/from the Rate Stabilization Account (RSA). Year-to-date City Light has transferred $7.1 million *from* the RSA whereas last year during the same period it transferred $26.5 million *to* the RSA, $21 million of which were refunding savings from the 2010 Bond Issue.

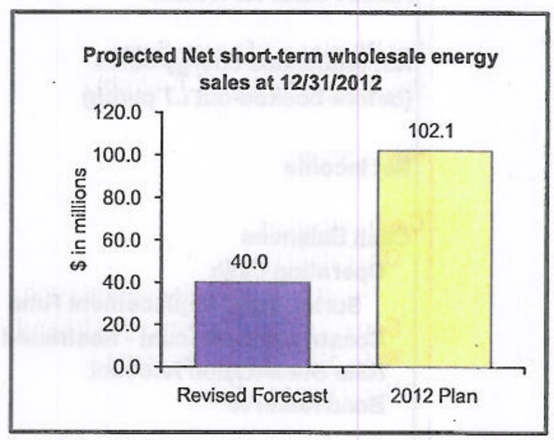




Projected net income at year-end December 31, 2012 is expected to be $114.1 million, $8.5 million or 8.1% higher than anticipated in the 2012 Plan. This is mainly due to lower forecasted transmission and wheeling and interest expenses.

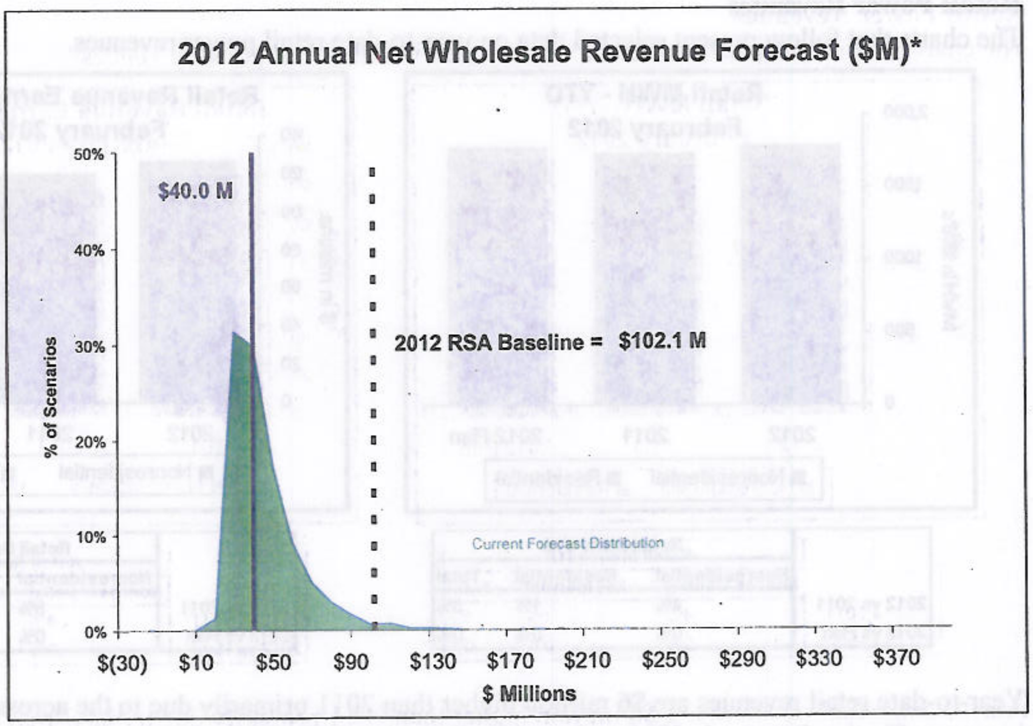
Net Short-Term Wholesale Energy



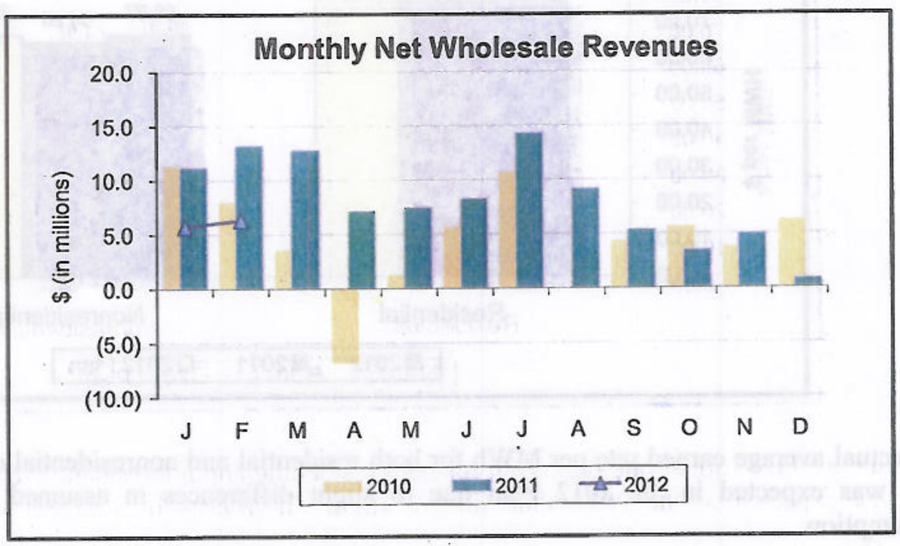


The projections of net short-term wholesale energy sales change weekly due to changes in water conditions, economic factors such as the price of natural gas, system load and the availability of surplus energy for resale. The chart on the next page represents the current forecast for net short-term wholesale revenues before booked-out long-term purchases, which is expected to be $40.0 million.

The 2012 planned net wholesale revenue is calculated as specified by the RSA Ordinance 123260 and is an average of the historical sales. Therefore, it does not reflect current market conditions. The current forecast is based on much lower energy prices than the historical average and lower energy surplus available for sale.

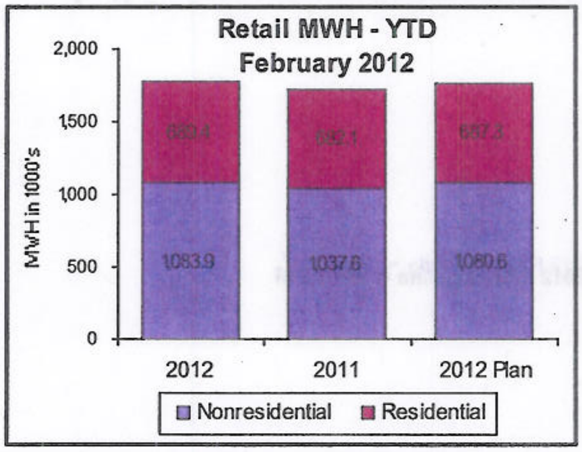


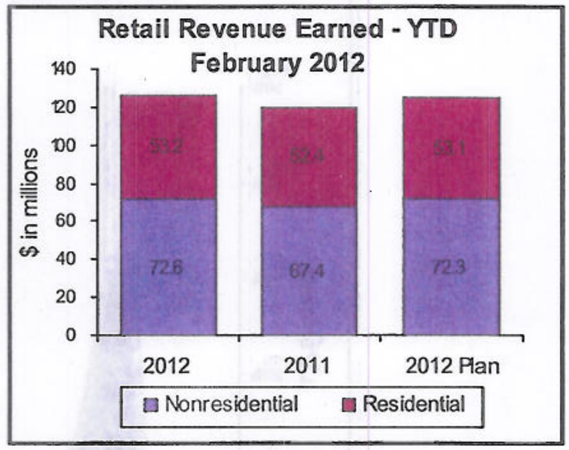
Net wholesale revenues year-to-date were $12.0 million compared to $24.4 million during the same period last year. This 50.8% decrease is explained by lower energy surplus due to a smaller BPA slice percentage and dryer hydro conditions year-to-date. In addition, on-peak prices were lower during January and February this year as compared to the same period last year.



Retail Power Revenues

The charts that follow present selected data on year-to-date retail power revenues.

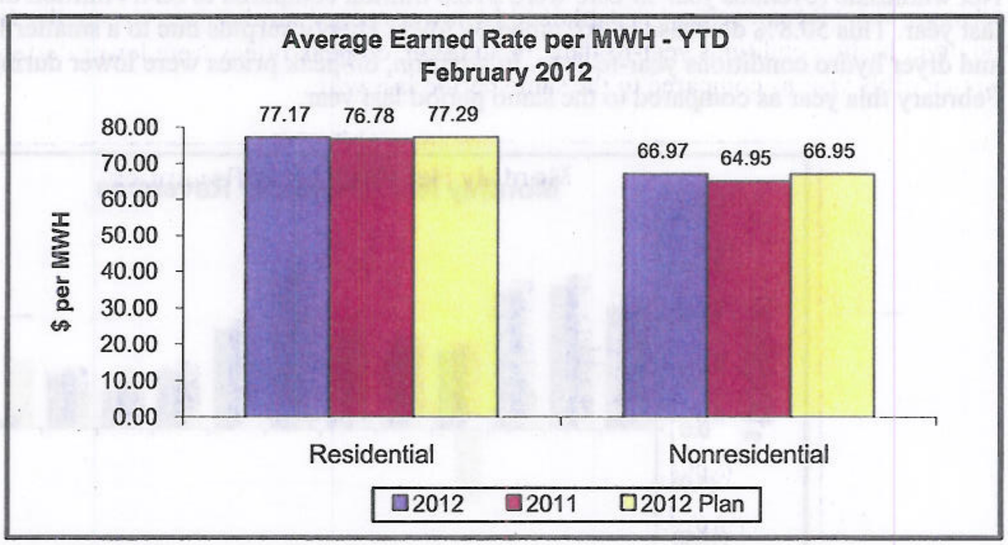




	Retail MWh YTD		
	Nonresidential	Residential	Total
2012 vs 2011	4%	1%	3%
2012 vs Plan	0%	0%	0%

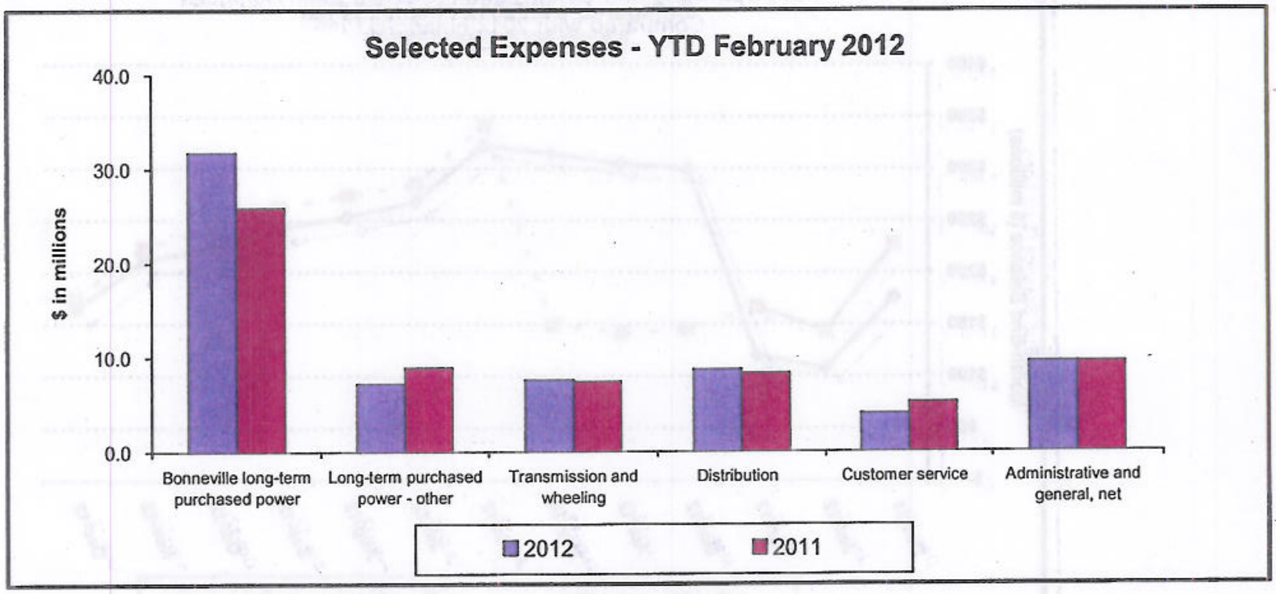
	Retail Revenue YTD		
	Nonresidential	Residential	Total
2012 vs 2011	8%	2%	5%
2012 vs Plan	0%	0%	0%

Year-to-date retail revenues are $6 million higher than 2011 primarily due to the across-the-board 3.2% rate increase effective January 1, 2012 and a colder than normal January.



The actual average earned rate per MWh for both residential and nonresidential customers is different from what was expected in the 2012 Plan due to slight differences in assumed versus actual patterns of consumption.

Expense Data for Selected Accounts
The following chart presents year-to-date data for major components of City Light's operating expenses excluding wholesale power transactions.

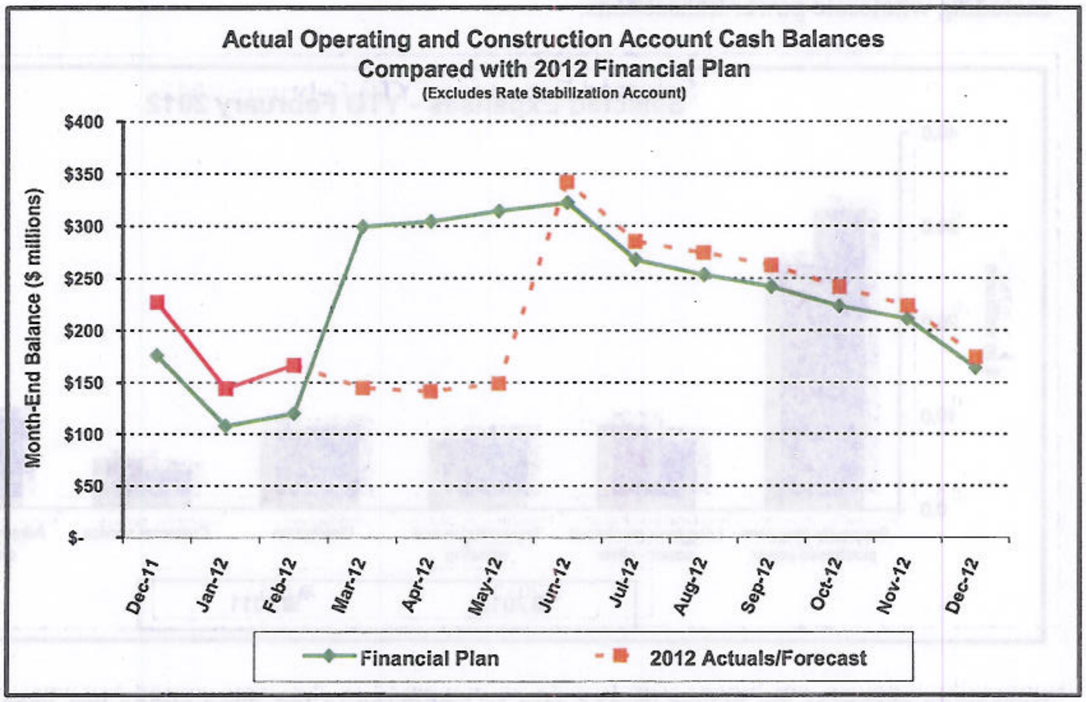


Bonneville expenses are higher year-to-date as compared to the same period last year primarily due to a lower BPA Slice true-up credit. BPA Slice expenditures are lower and BPA Block expenditures are higher year-to-date, but in the end they almost cancel each other out. Other long-term purchased power expenses are lower due to General Accounting's decision to perform fair valuation of the long-term contracts on a quarterly basis instead of monthly. This change went into effect in July 2011. Customer service expenses are lower this year due to lower expense for bad debt. The rest of the expenses are close to the previous year.

Cash Position
At February 29, 2012, City Light's operating plus construction account cash balance was $166.5 million, which was $47.1 million higher than the balance projected in the 2012 Financial Plan. This is mainly due to City Light having begun 2012 with a $51.4 million higher cash balance than anticipated in the Financial Plan, as a result of lower than anticipated capital and operating expenditures during August-December 2011. During the first two months of 2012, both cash inflows from revenues and cash outflows for expenses were slightly lower than planned, resulting in net cash flow very close to the amount forecast in the Financial Plan.

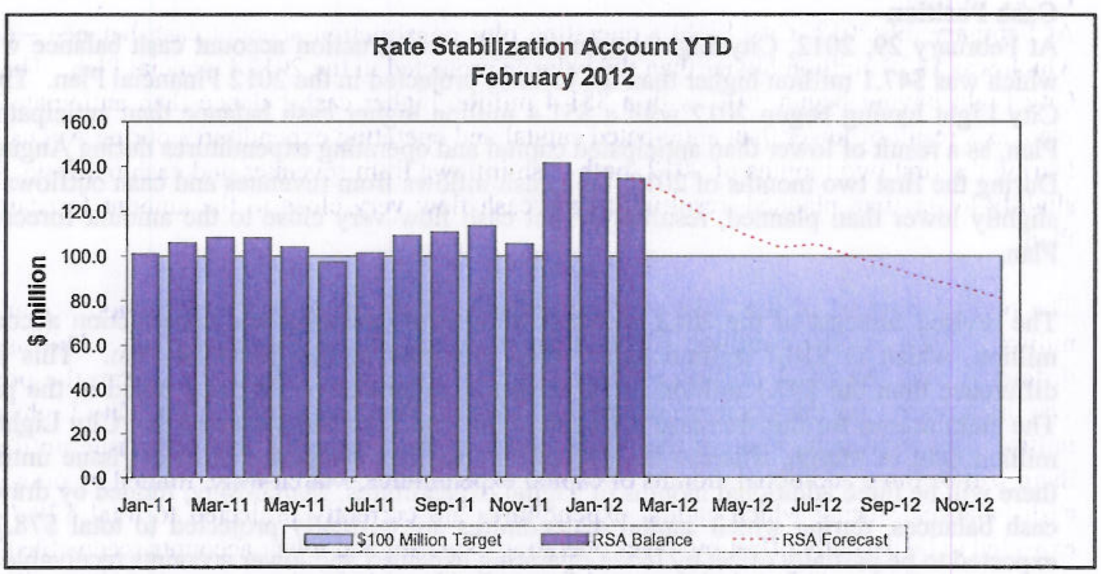
The revised forecast of the 2012 year-end balance of operating and construction account cash is $174.2 million, which is $10.7 million higher than projected in the Financial Plan. This is a much smaller difference than the $47.1 million actual variance at the end of February noted in the previous paragraph. The main reason for this decrease is that the Financial Plan had projected that City Light would issue $200 million debt in March, whereas the revised forecast has postponed this debt issue until June. Therefore, there will be three additional months of capital expenditures, March-May, funded by drawing down existing cash balances, during which capital expenditures are currently projected to total $78.7 million. This is expected to be partially offset by lower operating expenses and lower accounts receivable than anticipated in the Financial Plan. Although the revised forecast of net wholesale revenue is $62.1 million lower than the

Financial Plan, projected transfers from the RSA to operating cash have increased by a similar amount, resulting in no net impact on operating and construction cash balances.



RSA Position

The chart below displays the cash balance in the RSA as of February 29, 2012. The Department has been transferring funds from the RSA to supplement lower than expected Net Wholesale Revenues year-to-date. The year-end RSA balance is projected to fall below the $100 million target by $19.4 million and a RSA surcharge of 1.5% is projected to be implemented on February 1, 2013. No RSA surcharge is anticipated in 2012.



2012 Budget

As of February 2012, City Light is projecting that overall it will be within its budget authority through year-end 2012. The Department has spent 24% of the overall O&M budget (O&M budget includes Non-Power O&M expenses, Purchased Power, Taxes and Debt Service) through February. At this point in the year we would normally expect to have spent 17% of the annual budget, but carry forward encumbrances overstate the spending in the 1st Quarter. City Light's spending on the Capital program through February is 91% of the 2012 work plan for the year to date. City Light forecasts that the accomplishment rate will be approximately 90% by year-end.

Debt-to-Capitalization

At February 29, 2012, City Light's debt-to-capitalization ratio was 62.5%, a significant decrease from 66.7% this time last year and a slight decrease from the 64.0% reported at December 31, 2011. Based on the revised forecast, the 2012 year-end debt-to-capitalization ratio is now expected to be 62.0%, very close to the 2012 Plan.

Compliance with Risk Policies and Standards

Attached for your information is the City Light Risk Oversight Status Report as of March 14, 2012, which conveys City Light's compliance with risk policies and standards at that point in time.

Performance Metrics

In addition to the financial information included above, we have provided a report on performance metrics for Distribution Operations, Vegetation Management, Safety and Human Resources, Power Resources and Customer Care. The updated Performance Metrics Report for February 2012, with 2011 data included for comparison, is attached.

Attachments

City Light Risk Oversight Status Report
As Of
Wednesday, March 14, 2012

Summary

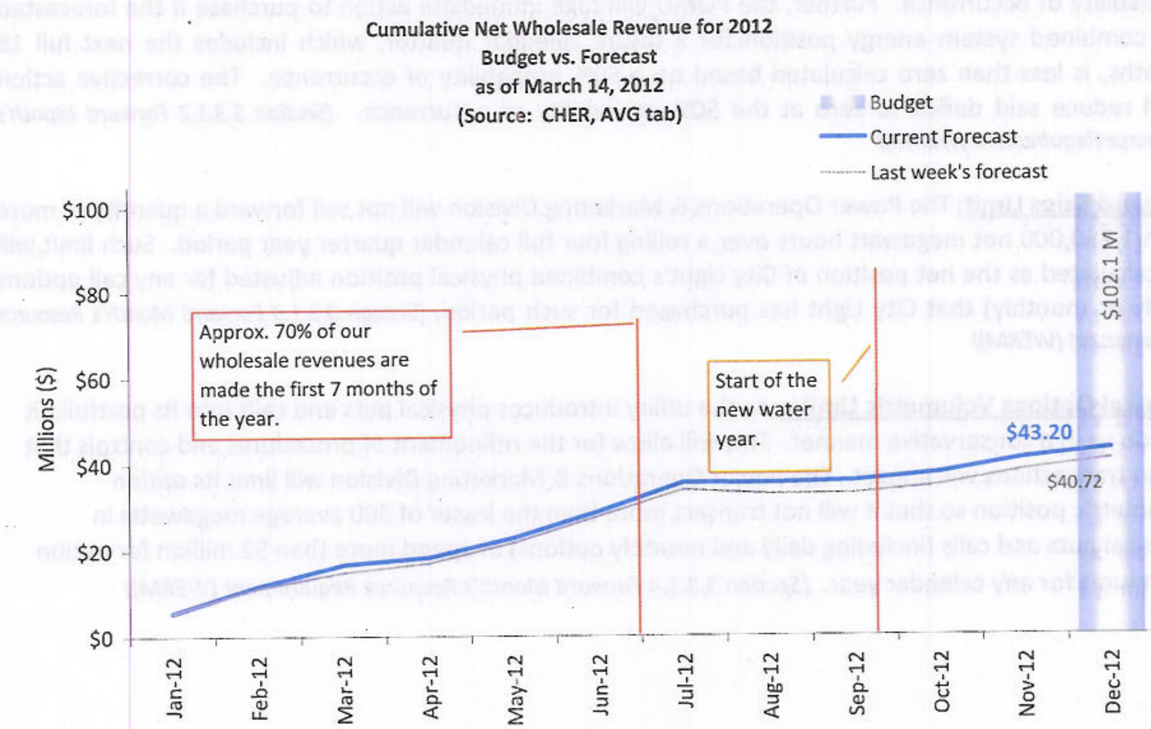
	% of 5 yr Avg	Current '12 Avg	5 Yr Avg
SCL Hydro Generation	91%	1,013 MW	1,115 MW
Peak Market Prices	52%	$23.17	$44.47

SCL Hydro Generation: The total average generation per hour for Seattle City Light's three major hydroelectric resources (Skagit, Boundary, and BPA Slice) for the 2012 calendar year. This average includes actual generation for past months, and forecasted MW for future months. The 5 year average value is comprised of actuals for years 2007-11.

Peak Market Prices: The average peak market price for the nearest electricity trading hub (Mid-C) for the 2012 calendar year. The 2012 average is comprised of monthly peak forward marks for future months and averaged Dow Jones firm peak index daily prices for past months. The 5 year average is calculated using Dow Jones peak daily prices for years 2007-11.

Wholesale Revenue Variance: In the 2012 approved budget, the approved Wholesale Revenue is $102.1 million. The chart (Chart 1) compares the current annual approved budget ($102.1 million) with the current forecast of $43.18 million with a 90% confidence level of $28 million and a 10% confidence level of $65 million. The Net Wholesale Revenue increased $3.2M from the last forecast. $2.6M of this was from the increased in forecast of Boundary and Slice output. Official February actuals led to another increase of $0.8M and the change in the forward prices led to a net decrease of around $0.2M.

Chart 1



Published Date: 03/19/2012

Policy Compliance:

Tail Risk Limit	Prompt Month & Within Month Limit	Forward Month's Resource Requirement Limit	Forward Sales Limit	Physical Options Limit
Compliant	Compliant	Compliant	Compliant	Compliant

Tail Risk: For the current calendar year, the Power Operations & Marketing Division will conduct its hedging activity to maintain the Utility's position within an $8 million Risk Tolerance Band (RTB) around the calculated 5% Tail Risk metric. For the prompt year (the year immediately following the current calendar year), the Utility's position will remain within a $12 million RTB around the 5% Tail Risk metric. *(Section 3.3.2 Prompt and Within the Month (WERM))*

Prompt Month & Within Month Volumetric Limit: The Power Operations & Marketing Division will maintain City Light's power portfolio position for any prompt month or any Balance of the Month period so that such position shall not exceed a 50 average megawatt deficit during such period. Such limit will be calculated as the net position of City Light's combined physical position adjusted for any call options (daily or monthly) that City Light has purchased for such month. If this limit is exceeded, the Division will take immediate action to reduce the deficit to under 50 average megawatts. *(Section 3.3.1.1 Prompt and Within the Month (WERM))*

Forward Month's Resource Requirement Limit: The POMD will immediately suspend any further forward sales for any future calendar quarter, which includes the next full 24 months, if the forecasted net combined system energy projected surplus for that quarter is less than zero calculated on a 75% probability of occurrence. Further, the POMD will take immediate action to purchase if the forecasted net combined system energy position for a future calendar quarter, which includes the next full 18 months, is less than zero calculated based on a 50% probability of occurrence. The corrective action shall reduce said deficit to zero at the 50% probability of occurrence. *(Section 3.3.1.2 Forward Month's Resource Requirement (WERM))*

Forward Sales Limit: The Power Operations & Marketing Division will not sell forward a quantity of more than 1,750,000 net megawatt hours over a rolling four full calendar quarter year period. Such limit will be calculated as the net position of City Light's combined physical position adjusted for any call options (daily or monthly) that City Light has purchased for such period. *(Section 3.3.1.3 Forward Month's Resource Requirement (WERM))*

Physical Options Volumetric Limits: As the utility introduces physical puts and calls into its portfolio it will do so in a conservative manner. This will allow for the refinement of procedures and controls that these transactions will impact. The Power Operations & Marketing Division will limit its option volumetric position so that it will not transact more than the lesser of 300 average megawatts in physical puts and calls (including daily and monthly options) or spend more than $2 million for option premiums for any calendar year. *(Section 3.3.1.4 Forward Month's Resource Requirement (WERM))*

5% Tail Risk Metric, 2012

In October 2007, City Light implemented a risk metric named the "5% Tail Risk". It is calculated as the average of the worst-case scenarios for City Light's cash from operations for the calendar year. Cash from operations is a bottom-line financial metric defined as the cash available to finance capital projects. There are numerous drivers of cash from operations such as retail revenue, investment income, debt service, and O&M expenses; however wholesale energy revenue is typically the primary driver of uncertainty in this metric.

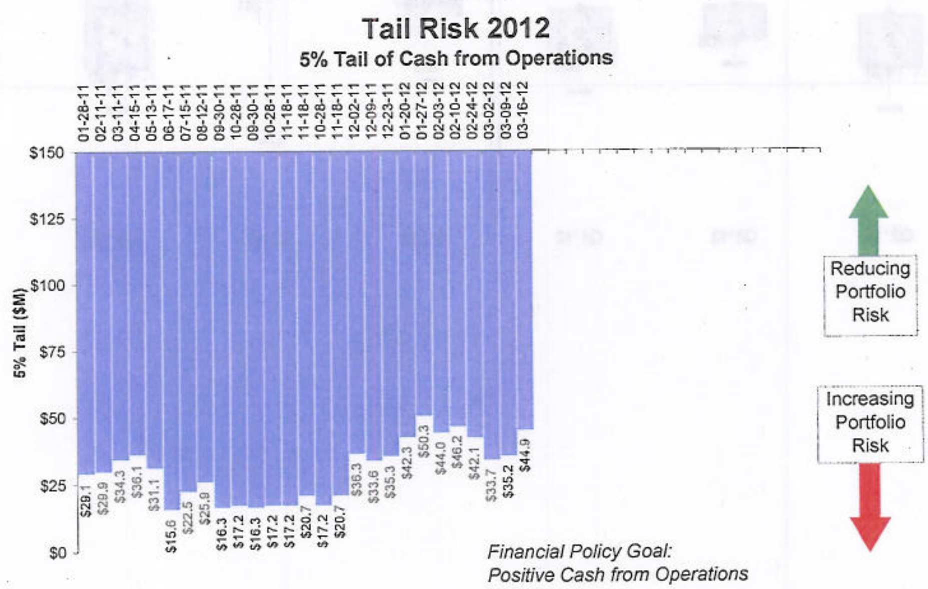
In 2011, the Rate Stabilization Account (RSA) became operational. The RSA is a cash reserve that is used to buffer the Utility from uncertainty in wholesale energy revenue. If the RSA becomes depleted, it is replenished via retail rate surcharges. The RSA significantly mitigates City Light's financial (i.e. cash from operations) risk associated with wholesale energy revenue; however retail customers are exposed in part to the wholesale energy revenue risk via RSA surcharges of up to 4.5%. To appropriately encourage management of risk borne by both City Light and retail customers, the cash from operations amount used in the 5% Tail Risk calculation excludes any effects of the RSA.

The 5% Tail Risk metric is used as a risk control measure in City Light's management of surplus hydro resources. It is used in concert with additional volumetric limits, as well as expert knowledge and analysis of western wholesale energy markets, river flow data, and generation unit outages, to inform power management decisions.

Every week, portfolio models are updated with the most current information and the 5% Tail Risk is recalculated for both the current portfolio (forecast position plus purchases, less sales) and planned portfolio (current portfolio plus remainder of existing hedge plan). The metric provides an indication as to whether the utility's portfolios include too much or too little surplus resources.

Chart 2 (below) illustrates the 5% Tail Risk metric values for the calendar year 2012. As time progresses, the 5% Tail Risk metric value has decreased from an initial projection of $20.7 million to the current projection of a worse case of $44.9 million of Cash from Operations.

Chart 2

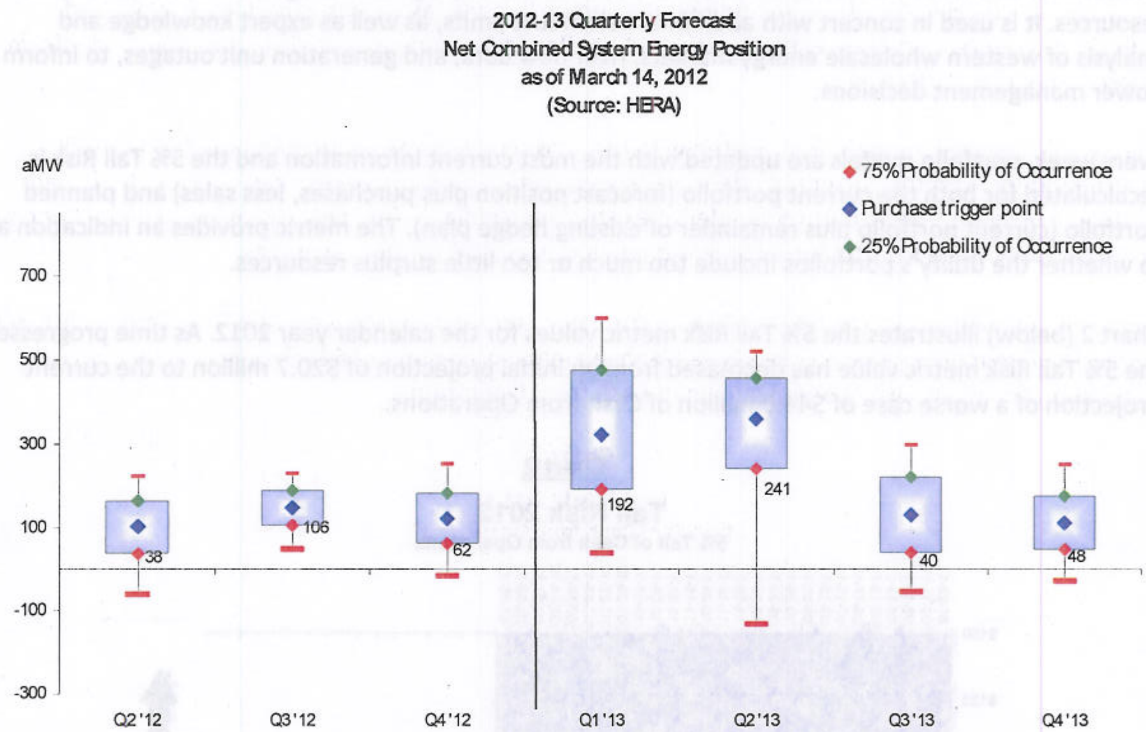


Hedging Plan & Position Status

Hedge Plan 2012, Phase 2 was last proposed and approved by the ROC on March 06, 2012. The maximum additional net volume to be sold forward under this plan total is 349,600 MWh.

Risk Policy Section 3.3.1b was amended by the Chair of the Energy, Technology, and Civil Rights Committee on March 8, 2010, changing the trigger point for purchasing power in the forward quarter-year periods to the 50th percentile (previously, it was the 25th percentile, or 75% confidence), when, at that level of expectation, the net position is below 0 . On April 6, 2011, City [╫╫¢ℓ contracting authority was approved from 18 months to 24 months. Chart 3 shows the Net Combined System Energy Position for the next 8 quarter, 2 year periods to cover the full amount of City [╫╫¢ℓ contracting authority. The blue boxes represent the expected net energy position from the 25th to the 75th percentile. The dark blue diamonds inside the boxes represent the 50th percentile (the new purchase trigger). Under the amended rule, if the blue diamond is below 0, City Light must purchase energy to get back above 0.

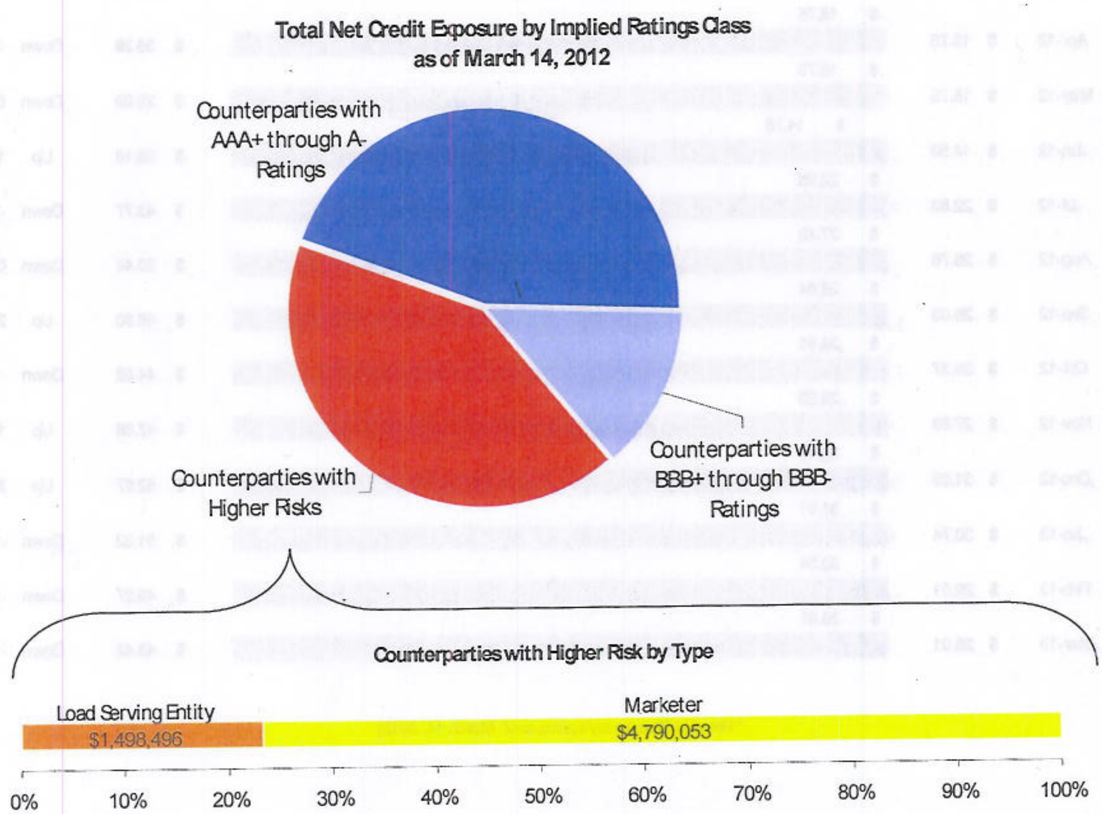
Chart 3



Credit

City Light actively manages its wholesale energy market credit risk by: setting credit limits for each counterparty that are derived from credit scoring models and analysis; securing credit enhancements; monitoring industry news; and by tracking counterparty credit exposures. Beginning in 2009 the Risk Management Division began using an industry standard tool (Moody's KMV) to proactively measure changes in counterparty creditworthiness. This necessitated the use of implied (internal) credit ratings instead of the actual rating agency ratings for Chart 4, below. It is important to note that this represents the assessment of credit risk by the Director of Risk Management. Actual credit ratings by Standard and Poors and Moody's Investor Services are higher.

Chart 4



Price

To ensure that prices are independently developed, City Light's official price curve is prepared by PLATTS and used for internal analysis, valuation and modeling tasks. Chart 5 shows the forward price range (Mid-C HLH only) for the upcoming 12 months since the previous 12 months.

Chart 5

Mid-C Power	Low for the period	Price range since March 14, 2011 (data source: PLATTS)	High for the period	% from last wk
Apr-12	$ 15.75	$ 15.75	$ 36.39	Down -3%
May-12	$ 15.75	$ 15.75	$ 29.09	Down 0%
Jun-12	$ 14.50	$ 14.75	$ 26.18	Up 1%
Jul-12	$ 22.83	$ 22.98	$ 43.77	Down -3%
Aug-12	$ 26.76	$ 27.43	$ 50.44	Down 0%
Sep-12	$ 26.03	$ 26.84	$ 46.80	Up 2%
Oct-12	$ 24.37	$ 24.81	$ 44.52	Down -1%
Nov-12	$ 27.83	$ 28.25	$ 47.86	Up 1%
Dec-12	$ 31.08	$ 32.44	$ 52.67	Up 3%
Jan-13	$ 30.74	$ 31.81	$ 51.32	Down -1%
Feb-13	$ 29.51	$ 30.54	$ 49.27	Down -1%
Mar-13	$ 26.01	$ 26.91	$ 43.42	Down -1%

*Prices in Blue (today's price as of March 14, 2012)

Net Income Variance Analysis
February 2012

Variance Year-to-Date 2012 Compared to 2011 Actuals: $21.0 million or 182.6%

Major components ($ millions):

$11.5	Net Income YTD through February 28, 2011
$6.0	Higher retail revenues due to 3.2% rate increase effective January 1, 2012 and colder than normal January
($12.4)	Lower net surplus energy sales due to lower energy surplus and lower energy prices
$33.6	RSA deferred revenues transferred-in
($5.9)	Higher BPA purchased power expenses
($0.3)	Other (net)
$32.5	Net Income YTD through February 29, 2012

Variance 2012 Revised Forecast Compared to Financial Plan: $8.5 million or 8.1%

Major components ($ millions):

$105.6	Net Income YTD through December 31, 2012 - Financial Plan
($62.1)	Lower net surplus energy sales than planned
$62.0	Transfer from RSA to offset lower net surplus energy sales
$4.1	Lower interest expense
$4.5	Other (net)
$114.1	Net Income YTD through December 31, 2012 - Revised Forecast

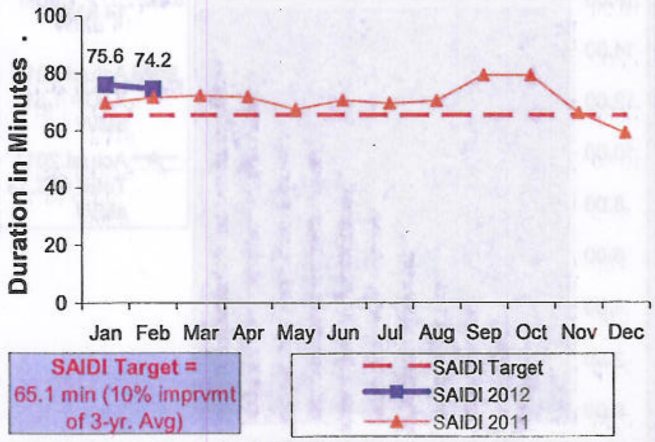
Line No.	Condensed Statements of Revenues and Expenses	Year-to-date			Year Ending December 31, 2012		
1	(Unaudited)	[A]	[B]	[A - B]	[C]	[D]	[C - D]
2	(In millions)			Actuals to	2012	2012	
3		Actuals	Actuals	Actuals	Revised	Financial	
4		February 29, 2012	February 28, 2011	Variance	Forecast	Plan	Variance
5	**Operating Revenues**						
6	Retail power revenues	$ 125.8	$ 119.8	$ 6.0	$ 676.6	$ 677.5	(0.9)
7	Short-term wholesale power revenues, net (lines 41 + 44)	11.9	24.7	(12.8)	59.0	146.1	(87.1)
8	Power-related revenues - other	2.0	6.0	(4.0)	33.2	35.9	(2.7)
9	Transfers to/from rate stabilization account	7.1	(26.5)	33.6	60.9	(1.1)	62.0
10	Other revenues	3.7	3.8	(0.1)	21.5	22.2	(0.7)
11	Total operating revenues	150.5	127.8	22.7	851.2	880.6	(29.4)
12	**Operating Expenses**						
13	Generation	3.9	2.8	1.1	37.9	39.1	(1.2)
14	Bonneville long-term purchased power	31.8	25.9	5.9	149.5	150.8	(1.2)
15	Long-term purchased power - other	7.2	8.9	(1.7)	63.7	65.8	(2.1)
16	Short-term wholesale power purchases	1.0	1.3	(0.3)	23.4	49.1	(25.7)
17	Power-related wholesale purchases - other	-	3.7	(3.7)	7.9	7.3	0.6
18	Other power costs	1.3	1.2	0.1	10.7	11.8	(1.0)
19	Transmission and wheeling	7.6	7.4	0.2	46.6	49.0	(2.3)
20	Distribution	8.7	8.3	0.4	67.3	68.0	(0.7)
21	Customer service	4.0	5.2	(1.2)	36.0	36.7	(0.7)
22	Conservation	2.9	3.0	(0.1)	26.7	27.7	(0.9)
23	Administrative and general, net	9.5	9.5	-	60.1	61.4	(1.2)
24	Taxes	14.3	14.0	0.3	77.4	77.6	(0.2)
25	Depreciation and amortization	15.8	14.8	1.0	89.9	89.7	0.2
26	Total operating expenses	108.0	106.0	2.0	697.2	733.8	(36.6)
27							
28	**Net Operating Income**	**42.5**	**21.8**	**20.7**	**154.0**	**146.8**	**7.2**
29							
30	**Other Deductions, Net**						
31	Investment Income	0.7	0.7	-	5.4	5.4	(0.0)
32	Other income (expense), net	0.6	0.7	(0.1)	5.6	5.7	(0.1)
33	Interest expense	(12.7)	(12.3)	(0.4)	(96.3)	(100.4)	4.1
34	Noncapital grants	-	-	-	3.9	3.9	(0.0)
35	Capital contributions	1.4	0.6	0.8	41.1	43.7	(2.6)
36	Capital grants	-	-	-	0.5	0.5	0.0
37	Total other deductions, net	(10.0)	(10.3)	0.3	(39.9)	(41.2)	1.3
38							
39	***Net Income***	**32.5**	**11.5**	**21.0**	**114.1**	**105.6**	**8.5**
40	Note A:						
41	Short-term wholesale energy sales, gross	13.0	25.7	(12.7)	63.4	151.2	(87.8)
42	Short-term wholesale energy purchases	(1.0)	(1.3)	0.3	(23.4)	(49.1)	25.7
43	**Net ST wholesale sales before booked-out LT purchases**	12.0	**24.4**	**(12.4)**	**40.0**	**102.1**	**(62.1)**
44	Booked-out long term purchases	(1.1)	(1.0)	(0.1)	(4.4)	(5.1)	0.7
45	Net short-term wholesale energy sales	**10.9**	**23.4**	**(12.5)**	**35.6**	**97.0**	**(61.4)**
46	Note B:						
47	Power-related revenues, net (line 8 minus line 17)	2.0	2.3	(0.3)	25.3	28.6	(3.3)

Performance Metrics Report

February 2012

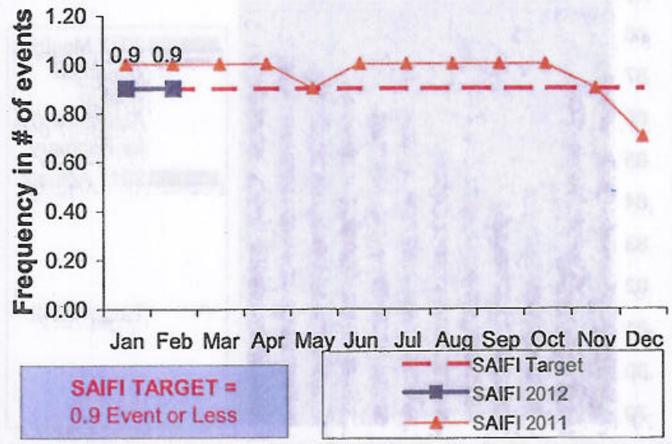
Distribution Operations:

SAIDI -12 Month Rolling Average YTD



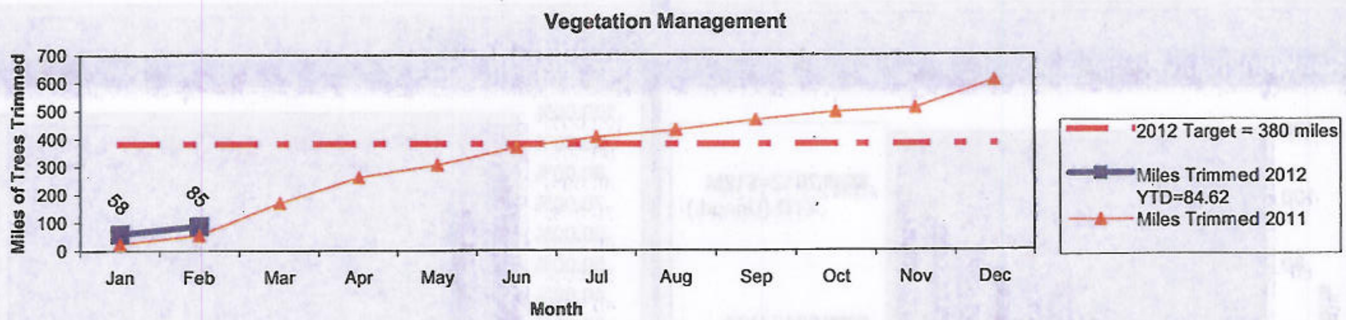
SAIDI Target = 65.1 min (10% imprvmt of 3-yr. Avg)

SAIFI - 12 Month Rolling Average YTD



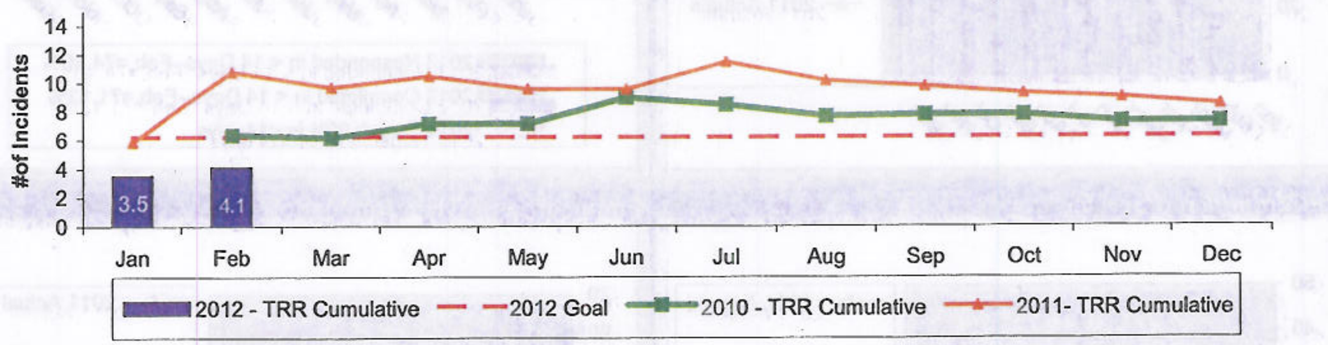
SAIFI TARGET = 0.9 Event or Less

Cumulative Miles of Trees Trimmed vs Annual Target



Human Resources:

Safety - Average Total Recordable Incident Rate (TRR) YTD

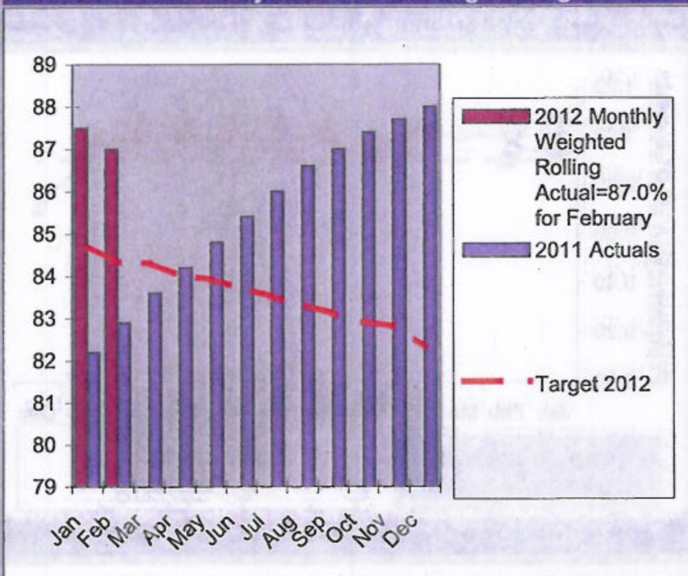


Hiring Statistics Cumulative YTD

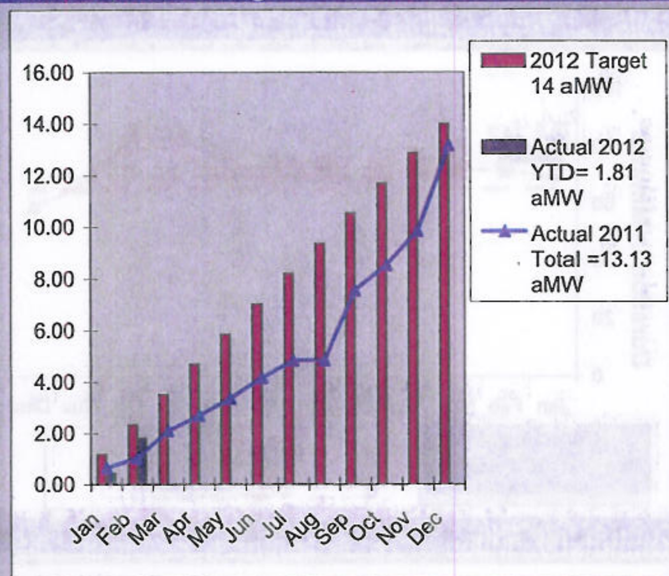
	Jan	Feb	Mar	April	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
# of New Hires YTD	8	26										
# of Promotions YTD	5	11										
# of Days for Hiring	47	47										
# of Attrition YTD	8	14										
Vacancy Rate Mo. End	7.6%	7.3%										

Power Resources:

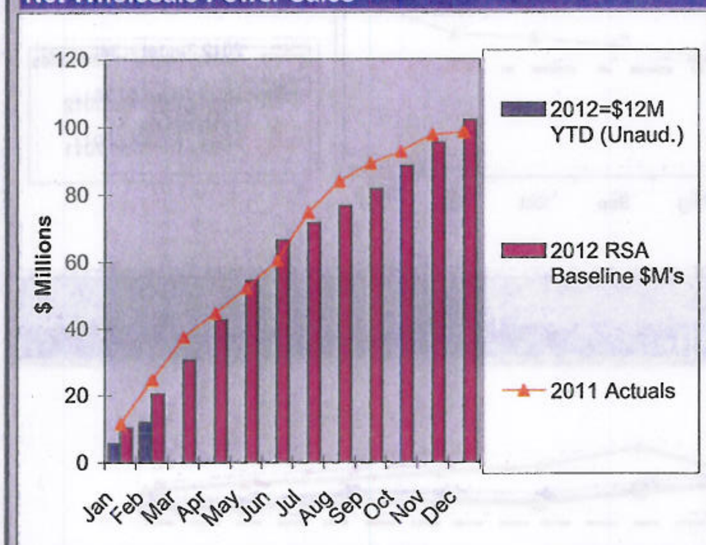
Generator Availability-12 Month Rolling Average



Conservation Savings

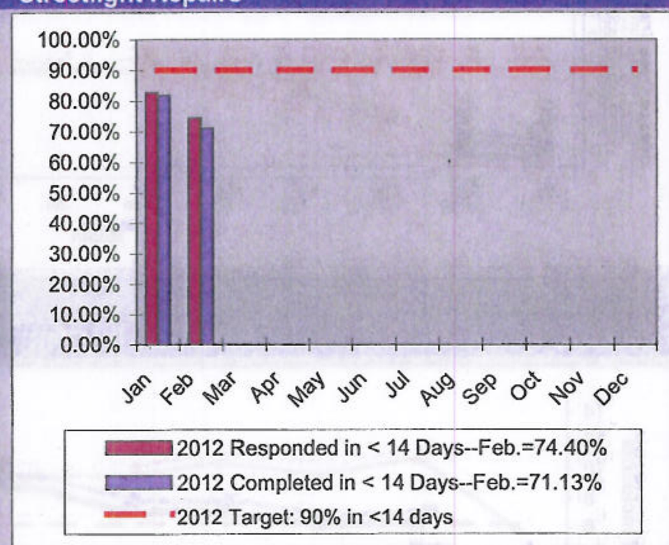


Net Wholesale Power Sales

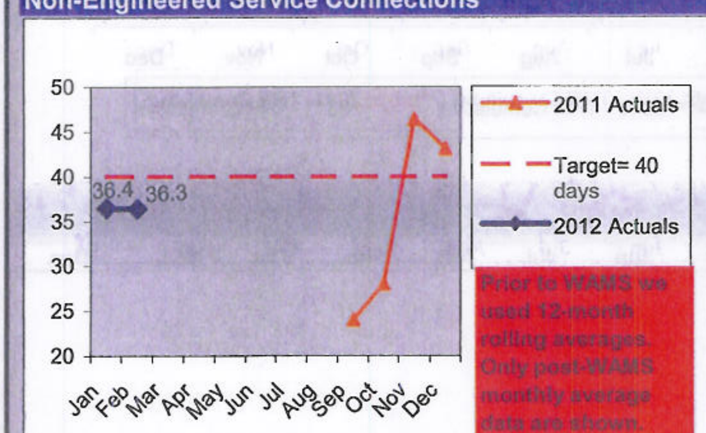


Customer Care:

Streetlight Repairs



Non-Engineered Service Connections



Engineered Service Connections